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FAR EAST

1. Inadequate Japanese defense budget nears final cabinet decision:

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[REDACTED] Barring last minute changes, top Japanese officials are expected to submit to the cabinet for final decision on 12 January a draft 1954 defense budget described by the American embassy as "disappointing" and "inadequate." The draft calls for total defense appropriations of 138.4 billion yen (about \$384,000,000) during the next fiscal year, as compared with "minimum" American recommendations of 155 billion yen (approximately \$430,000,000).

The budget limits the increase in Japanese ground forces to 24,000 for 1954, 6,000 less than what the United States regards as an acceptable minimum.

Comment: Foreign Minister Okazaki told Ambassador Allison on 28 December that the budget would not fall far short of the figure of 155 billion yen suggested by the United States, as compared with 123.4 billion expended in fiscal 1953.

2. Indians impressed by Chinese Communist construction program:

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[REDACTED] were greatly impressed by the tremendous amount of construction, rebuilding and cleaning up in Communist China.

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They expressed the view that Peiping is seeking a position of real independence vis-a-vis the Soviet Union and would welcome the normalization of relations with the United States.

Comment: Peiping's construction program similarly impressed several non-Communist diplomats who were given a tour of Manchuria last month. These tours are part of the Chinese effort to exploit "neutralist" sentiment, especially in the Far East.

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[REDACTED]

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There is no evidence of Chinese eagerness for diplomatic relations with the United States.

SOUTHEAST ASIA

3. Philippine vice president to visit Indonesia:

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[REDACTED] Vice President Garcia of the Philippines will pay an official visit to President Sukarno of Indonesia during January, [REDACTED]

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[REDACTED] The American embassy in Manila believes it reasonably certain that Garcia will invite a military mission to visit the Philippine armed forces and will suggest that Sukarno appoint a small number of cadets to the Philippine Military Academy.

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Comment: Ambassador Cumming in Djakarta has reported that the Indonesian foreign minister recently expressed great admiration and respect for Magsaysay. He readily agreed to the ambassador's suggestion that, in certain fields, Indonesia might benefit from employment of Philippine technical advisers.

NEAR EAST - AFRICA

4. Iran again requests \$25,000,000 loan from Export-Import Bank:

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[REDACTED] Foreign Minister Entezam asked Ambassador Henderson on 5 January whether Iran could soon receive the \$25,000,000 Export-Import Bank loan which has been pending for two years. Entezam said funds are urgently needed for economic development programs which cannot wait for renewed oil revenues.

He argued that Iranian good will has been sufficiently demonstrated to convince the United States and the Export-Import Bank that granting of the loan will not diminish eagerness to settle the oil dispute.

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Granting the loan prior to settlement of the oil dispute, he added, would help to convince Iranians of American friendship. It would also strengthen Prime Minister Zahedi's popularity during negotiations.

Comment: Iran will face a severe financial crisis when emergency American aid expires in March or April. Continued foreign financial aid will be needed and more requests for such aid can be expected.

Several requests by Mossadeq for implementation of the Export-Import Bank loan were denied, presumably because of Iran's unfavorable financial position following oil nationalization.

5. Comment on first Sudanese prime minister:

The selection of Ismail Azhari, a pro-Egyptian political agitator without parliamentary experience, as the first prime minister of the Sudan is likely further to embitter Anglo-Egyptian relations and handicap the development of Sudanese self-government.

Azhari, leader of a small pro-Egyptian splinter group until appointed president of the Egyptian-sponsored National Unionist Party in 1952, has been closely associated with Egypt since 1944. His open support of Egypt's position has discredited him among some Sudanese who consider him to be an "Egyptian hireling."

The choice reflects the current strength of Egyptian influence in local affairs. Azhari's selection, however, is not likely in the long run to promote party unity and may contribute to subsequent Sudanese opposition to Egyptian interference.

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6. Moroccan city reportedly under "state of siege":

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	The city of Fez has been under a "state of siege" by French troops and French-controlled native tribes for ten days,

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Comment: Maintenance of the French position in Morocco is assured by some 56,000 loyal troops. Despite mass arrests of Moroccans, however, the French have been unable to halt the increase in terrorist acts which occurred following the deposition of the former sultan last August.

EASTERN EUROPE

7. Czechs request meat instead of strategic goods from Austria:

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	Czechoslovakia has suddenly offered to reduce its proposed imports of Austrian ball bearings, aluminum and 30 to 40 other finished-goods items under the 1954 trade agreement now under negotiation, and requested in their place an import quota of \$2,500,000 worth of Austrian pork, beef and fats, according to the American high commissioner in Vienna. He comments that the Austrian government probably will be reluctant to curtail traditional shipments of finished goods, manufacture of which employs large numbers of Austrian workers.
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Comment:

	this is the first firm evidence of Orbit willingness to sacrifice imports of high-priority strategic goods from the West in order to procure foodstuffs.

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WESTERN EUROPE

8. Reynaud denies intention to seek negotiations with Viet Minh:

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Vice Premier Reynaud's executive secretary approached American embassy officials in Paris on 6 January to deny the statement of American columnist Joseph

Alsop that Reynaud wants France to negotiate with the Viet Minh. The vice premier, he said, favors evacuation only as a last resort, and supports active prosecution of the Indochina war until international negotiations are possible, preferably as part of any post-Korea political conference or in five-power talks including Communist China.

In the embassy's opinion, Reynaud is trying to retract statements he now believes went too far. The embassy also thinks that Secretary for Associated States Jacquet, who stated on 5 January that the vice premier was pressing the cabinet to adopt immediately a policy of withdrawal from Indochina, may have exaggerated Reynaud's position.

Comment: Reynaud's position as redefined here suggests that he is now likely to insist more than ever on the need for international negotiations on Indochina. In particular he may urge even harder that at Berlin Premier Laniel should accept any Soviet proposal for five-power talks on the Far East.

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